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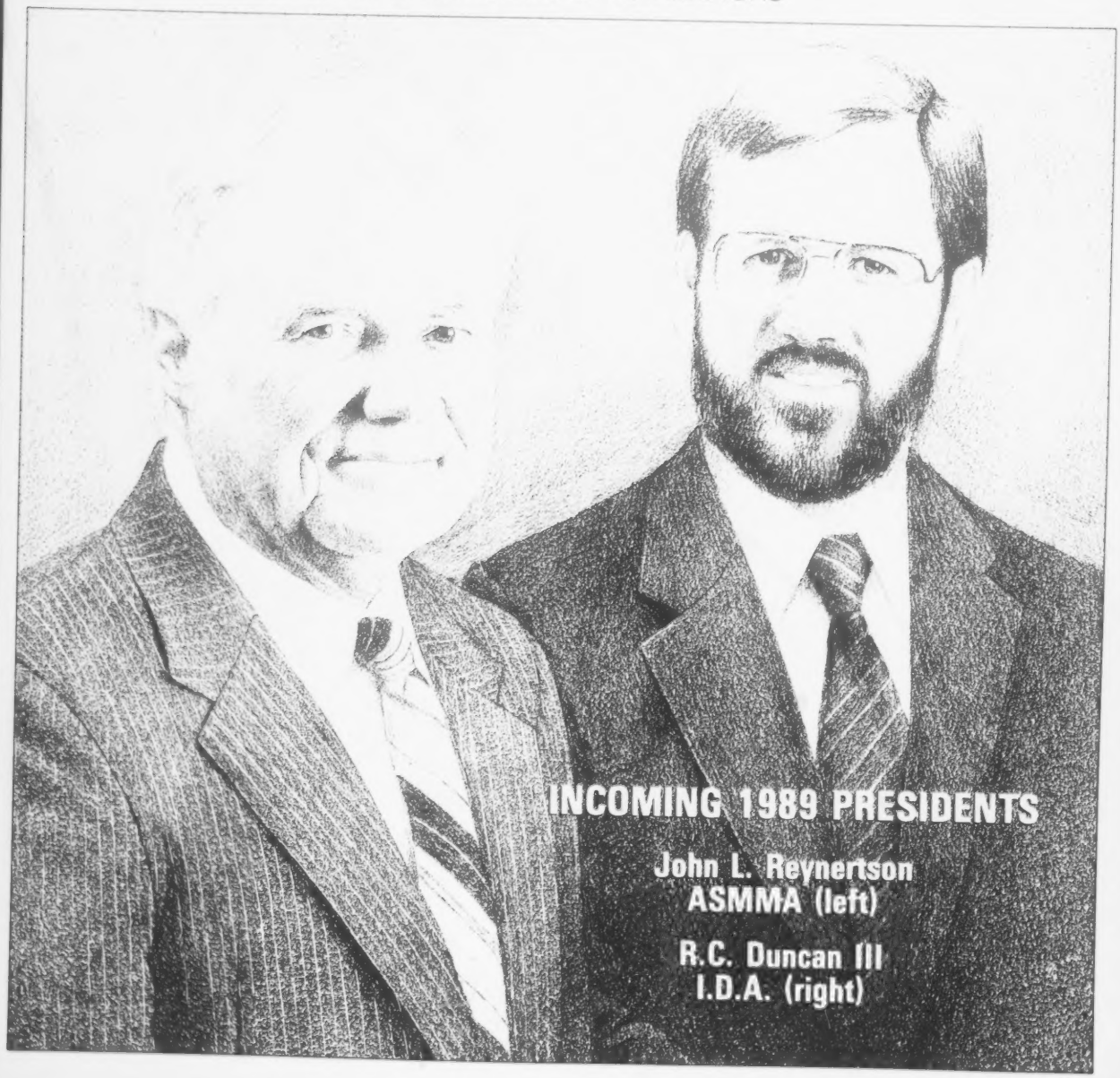
Industrial Distribution

THE BUSINESS MAGAZINE FOR INDUSTRIAL DISTRIBUTORS

SPECIAL:

The Industrial Distribution Convention



INCOMING 1989 PRESIDENTS

John L. Reynertson
ASMMA (left)

R.C. Duncan III
I.D.A. (right)

Industrial Distribution

THE BUSINESS MAGAZINE FOR INDUSTRIAL DISTRIBUTORS

VOL. 78, NO. 5 MAY 1989 A CAHNERS PUBLICATION

In charge in '89 will be John Reynertson (left) of ASMMA and Rusty Duncan (right) of I.D.A.

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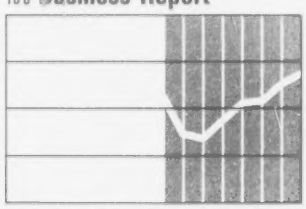

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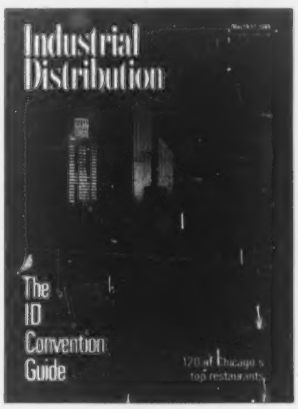


NEWS

Dramatic changes seen for MRO market

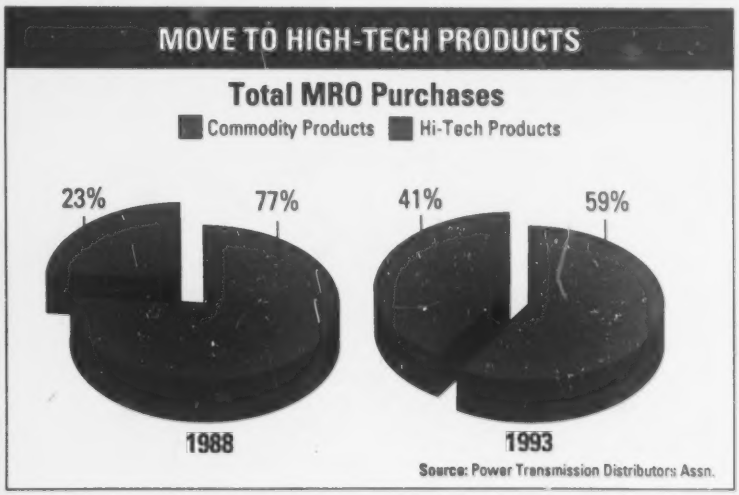
Study points to growing importance of pt distributors in MRO marketplace; planning, quality control and training seen as vital.

As major end users automate plants and factories during the early 1990s, power transmission (pt) distributors are expected to play an increasingly important role in the maintenance, repair and operations (MRO) marketplace.

This was the conclusion of a recently completed study sponsored by the Power Transmission Distributors Assn. (PTDA). The 130-page report, entitled *The Increasing Importance of PT Distributors: An Industry White Paper,* was based on telephone interviews with 56 plant engineers, maintenance supervisors, purchasing managers, distributors, and industrial manufacturers.

The report was researched, written and prepared by Edward L. Reid, Jr., president of Industrial Distribution Consultants and a professor with Texas A&M's industrial distribution program.

"What this report ultimately does is point out how automation is changing the industrial marketplace," Reid noted. "It also offers distributors suggestions on how to respond to these changing conditions."



As end users continue to automate, purchases of high-tech MRO products will nearly double during the next five years.

PTDA Executive Vice President Beate Halligan noted that the study identifies four major trends impacting the industry. Specifically:

- Purchasing and maintenance departments are buying more factory automation equipment, and are becoming increasingly involved with the factory automation process.
- The percent of total MRO dollar purchases for high-tech MRO products will jump from 23% in 1988 to 41% by 1993 (see chart). High-tech products are defined as those which require support in selection, problem solving, applications engineering, and training. Some examples include programmable controllers, ac and dc electronic adjustable speed drives, and digital counters and controls. The percent of total MRO dollar purchases for commodity products will drop from 77% in 1988 to 59% by 1993.
- End users are looking to pt distributors and manufacturers for technical/engineering assistance and training.

"As the industry continues its rapidly changing pace, the association's membership felt that this was a good time to take a hard look at what the future holds," Halligan said. "The purpose of the study was to investigate trends in the MRO marketplace, determine what effects they will have on PTDA members, and help develop strategies to meet the challenges of the future."

The report itself goes far beyond Halligan's four-point analysis, providing readers with a detailed ac-

count of the significant trends affecting the MRO marketplace. According to the report, the switch to automation has purchasing departments implementing MRO procurement programs. In many cases, these programs use high-tech capabilities to lower the cost of MRO inventory procurement and possession, as well as the total cost of the plant's operation.

As a result of this trend, the study reported, purchasing managers expect acquisition purchases of MRO supplies to decline from 11% of their total buys to 9.9% in the next 5 years. The drop in MRO purchases will continue throughout the next five years, the report noted, as purchasing managers recognize that MRO items make up a declining and relatively insignificant portion of their total purchases, and that several excellent opportunities exist to reduce acquisition and possession costs.

Texas A&M's Reid said that in response to these trends, distributors should evaluate their customers' MRO procurement programs to ensure that they will either be the number one or number two supplier in the local trading area they service.

Distributors can accomplish this, Reid said, by developing engineering and technical support for high-tech MRO products; implementing training programs on high-tech MRO products for their sales forces and end users; assisting customers in reducing the cost of procurement and possession of MRO products; providing the highest quality product lines; communicating high-tech capabilities to customers and vendors; implementing quality process programs; using facsimile, electronic data interchange and bar coding machines; negotiating systems contracts; and providing just-in-time delivery.

As Reid explained, "Particularly for distributors committed to selling strictly MRO commodities, if you are not currently implementing the various marketing strategies that will help you either dominate or be number two in your local trade area, plan to merge, sell or go bankrupt. The market will be that competitive."

The report also disclosed distributors' views on the changing relationship between manufacturers and distributors. Typical responses suggest that:

- Closer marketing partnerships will be required between manufacturers and distributors. There will be a tremendous increase in formal vendor evaluations by distributors which will assist in weeding out the partners who are not qualified for the aggressive marketing required to penetrate markets in the next five years. This trend will result in distributors reducing the number of commodity product vendors they represent.
- Manufacturers must support the move to electronic data interchange as part of the quality process programs being demanded by end users.
- High-tech distributors will also be required to sell commodity products. Electrical/mechanical products will not become completely obsolete.
- Manufacturers will need financially strong distributors and high value-added service distributors for support in high-tech markets.
- Price increases must be justified to convince the distributor that they are in the best interest of his customer. Customers must be competitive to survive, so there can be no more automatic price increases by manufacturers.
- Customers must pay more for the value-added services that distributors are now offering. Manufacturers must price for the distributor's participation. Many times the distributor's participation is beyond the traditional time, form, possession, and place utilities of the past.

To obtain a copy of *An Industry White Paper*, call PTDA at (312) 825-2000. The cost is $100 for association members, $300 for non-members. □

F&D Tool marks 50th year in cutting tool industry

THREE RIVERS, MA—F&D Tool Co., developer of the original "step tooth" milling cutter, is celebrating its 50th year by renewing its commitment to industrial distribution.

Phil Duda, the company's president, said that F&D Tool will strengthen its distributor support this year in four distinct ways. He said the company has plans to increase its cooperative advertising, place manufacturers' representatives in key geographic areas, publish a newsletter geared toward distributors, and add several new products to its line. Some of the new additions include carbide tip cutters, TiN-coating, shell endmills, hollow mills, circular saws, and cobalt cutters.

"We are moving into an era where it's absolutely essential that manufacturers do everything they can to support their distributors," noted Duda. "I think you'll find that although we won't be adding distributors the way we did in the past, F&D will provide more support to its exisiting distributor base."

The company made its 100% commitment to distribution in 1966, the year Duda assumed control of the company. Duda said he made the move to work more closely with distributors because he believed it was the most effective way for F&D to increase its share of the national market.

And that commitment to industrial distributors has paid off. Duda said that the firm's sales have grown eightfold over the last two decades since it started selling exclusively through distributors.

F&D Tool is marking the firm's 50th year with a push to increase its distributor support, notes company President Phil Duda.

"There's no doubt in my mind that the relationship we've developed with our distributors is what's fueled our growth during the past 20 years," Duda said.

F&D was founded in 1939 by Duda's father, John Duda, Jr. Following his success with marketing

Hot Markets to Watch

By John G.F. Bonnanzio, Associate Editor

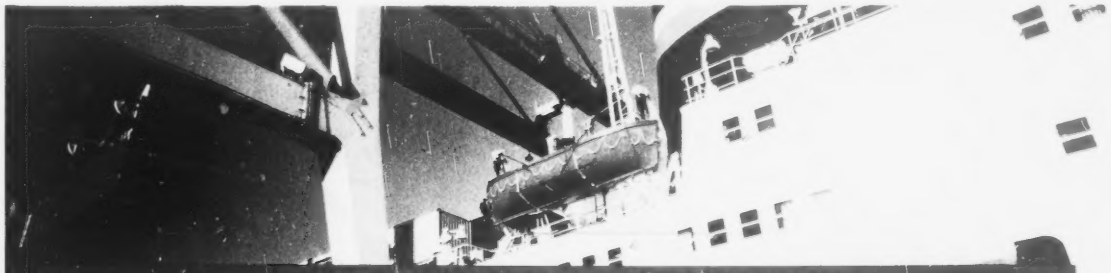
Forget all that talk of recession. If Wall Street is correct, industrial output will remain strong over the next 18 months.

On Wall Street, at least, David Sutliff's reputation precedes him. That's because the Salomon Brothers analyst has a pretty good record for spotting trends among capital goods manufacturers, and the trend he sees developing right now bodes well for industrial distribution.

At the heart of Wall Street's optimism for selected manufacturing stocks is this simple belief: Although the dollar is expected to rise slightly against most major currencies for the remainder of 1989 and 1990, it's ascent will be moderate, keeping U.S. goods competitive overseas.

Between 1983 and 1984 the high value of the dollar made American products too expensive abroad. And even while the domestic manufacturer's pot was starting to boil, export activity was weak, import activity increased, and the trade deficit continued to widen. By the end of 1984, however, the dollar went into a steady retreat, and U.S. producers found ready markets in Europe and even Asia, while manufacturing's ability to turn out products soared to record levels (see chart). The guesswork now focuses on how long and how high capacity utilization is likely to remain.

Because of manufacturing's high utilization levels and historically in-



DISTRIBUTION'S FIVE HOT SUPPLIERS... ...AND FIVE HOT CUSTOMERS

Earnings per share
(Estimates in $)

	1989	1990	% change
Cincinnati Milacron	1.80	2.25	25.0
Cooper Industries	5.20	6.10	17.3
Eaton Corporation	6.50	7.00	7.7
Norton Company	4.85	5.25	8.2
Parker Hannifin	2.35	2.65	12.8

	1989	1990	% change
Caterpillar Inc.	6.25	8.00	21.9
Duriron	2.35	2.70	14.9
Ingersoll-Rand	3.75	4.50	16.7
Sunstrand	5.50	6.50	18.2
Trinova	2.75	3.05	10.9

Source: Salomon Brothers Inc.

efficient production techniques, factory automation and its sister technology, digital process control, have come of age (*ID*: Sept. '88, p.30).

In 1976, for example, only $1.6 billion worth of process controls were sold in the U.S. This year, according to the market research group Frost & Sullivan, sales will surpass the $5 billion mark. Says Sutliff, "The greatest strength in spending should continue to be in the process control, machine tool and aircraft component areas." In turn, he says, this will fuel capital expenditures through 1990.

STRONGER MARKETS

For industrial distributors, such speculation can only be viewed as good news. But amid reports that the Federal Reserve is poised to quell an "overheated" economy by raising the prime rate, distributors holding inflation-prone inventory have generally welcomed rising prices. In addition, many suppliers would argue that it has been a long time since they've enjoyed being on the winning side of the supply/demand curve, and now the Fed is ready to call off the impending party.

Nonetheless, distributors selling to OEMs already active in export markets might expect their strong sales to continue for the 18 months ahead, particularly in a number of key manufacturing markets.

Truck tonnage. In 1988 the average age of all trucks in service was estimated at about six years. "When business is slow," explains Sutliff, truckers will maintain older trucks even though they have higher repair costs, are less fuel efficient and can be less reliable. However, when industry conditions are favorable," he says, "truckers strive to replace their fleets to rid themselves of these problems."

Also working in favor of the domestic truck manufacturer, as well as the distributor/supplier, is the continued weak dollar abroad. According to American Trucking Assn. estimates, domestically manufactured goods require four times as much trucking to reach their market as do imported goods. This is because foreign-produced goods are generally shipped more complete, while domestic goods have their components delivered from various points.

In drawing both of these relatively obscure observations together—increased trucking activity combined with the likelihood that shippers will upgrade their fleets—Sutliff believes that demand for truck tonnage will not decline, but rather flatten at a continued high rate of production.

Machine tools/accessories. Having curbed their spending in 1988, this year auto makers are expected to go on a buying binge to the tune of $11.7 billion. This is up 6.7% from a year earlier, a trend that Sutliff predicts will last through 1990. Also, manufacturers of industrial machinery, engines and other kinds of capital goods are all retooling.

The consequence of higher outlays for new plant and equipment is obvious for the nation's major suppliers of metalworking machinery and accessories. Cincinnati Milacron will experience a 12% rise in machine tool shipments in both 1989 and 1990, says Sutliff. In addition, sales of cutting and metalworking fluids, abrasives, and CM's high-tech line of coordinate measuring systems and lasers will find increased demand at home and abroad.

Prospects for Norton Co.'s line of 250,000 grinding wheels and 38,000 coated abrasives would also appear promising through 1990. Net income increased 43.8% in 1988 on rising sales of 11.8%, or $1.4 billion. Explains company spokeswoman Andrea Michaels, "Profit margins improved as a result of overall volume and cost performance, as well as some restructuring efforts." Last year Norton posted per share earnings of $4.39; Sutliff estimates earnings will rise to $4.85 this year and to $5.25 in 1990.

Farm Equipment. Despite Caterpillar's anemic performance in 1988, this year the company will increase its equipment purchases by 47%, much of which, notes Sutliff, "is allocated to advanced metalworking machinery."

Planning to harness some of this windfall is Ken Everett, president of W.D. Allen Tool & Machinery in Niles, IL. A certified Caterpillar distributor, Everett says that he "definitely sees the potential for increased sales due to Caterpillar's increased capacity." Part of that activity might appear in demand for four-wheel-drive tractors, says Sutliff, sales of which jumped 65% in 1988 but were still well below 1983, 1984 and 1985 levels. Further cautions depend in part on weather. Sales for combines were depressed in 1988 due to drought conditions, but how long they will last is anyone's guess.

In the meantime, Sutliff's stock picks are probably somewhat more reliable than the weather. His recommendations include: Cincinnati Milacron and Ingersoll-Rand on the machining side; Cooper Industries, Eaton Corp. and General Signal among the electrical and electronic manufacturers, and; Duriron and Trinova in the fluid power manufacturer's group. In all, 7 basic industrial manufacturers thought to outperform the S&P 500 during a 6- to 12-month horizon. Not too bad, particularly if you're preparing for the next recession. □

Can Value-Added Mean Profits Lost?

Manufacturers' adoption of JIT inventory techniques and "one-stop shopping" are making some specialty distributors uneasy.

Recent trends in manufacturing might now be favoring the general line distributor over the specialist. Or so speculates contributing editor Doug Harper. Here is his view.

In the perennial swing of the pendulum that regularly occurs between general line distributors and specialists, general liners are once again in the ascendency.

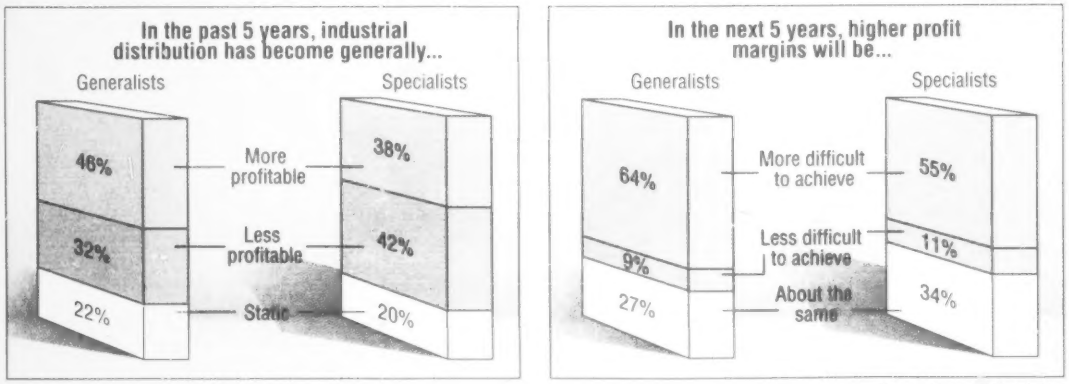
And the change has been as swift as it has been unexpected. As recently as 1986, *ID's 40th Annual Survey of Distributor Operations* found specialists outperforming general liners in virtually every significant measure of business.

According to the conventional wisdom of the day, general liners had become mired in high-priced inventory requiring substantial overhead in terms of both warehousing and personnel. The future, said distribution gurus, clearly lay with the lean, mean specialists who not only had the advantage of lower inventory levels but, in addition, could provide profitable value-added services in the form of their technical expertise.

Other studies seemed to support this premise. The *1988 Distributor Productivity Report*, published jointly by the National and Southern Industrial Distributors Assns. (NIDA/SIDA), found that in several key areas, including return on net worth, payroll as a percentage of gross margins, and inventory turnover, specialty distributors consistently outperformed general liners.

But signs of change were already in the wind. The NIDA/SIDA report also noted that in 1987, for the first time in three years, sales growth among general liners exceeded that of the specialists. And by a substantial margin.

ASSESSMENT OF DISTRIBUTION'S PROFITABILITY



Source: Industrial Distribution

Value-added

According to the report, sales growth among general line distributors as compared with that of specialists was as follows:

	Generalist	Specialist
1984	21.1%	22.2%
1985	3.7	6.6
1986	0.0	3.3
1987	6.3	4.7

Source: NIDA/SIDA

By the same token, *Facing the Forces of Change*, published by the Nat'l Assn. of Wholesaler-Distributors (NAW), predicted that the average number of product lines carried by a distributor would increase by 41%, with the average number of line items growing by 25%.

According to the authors of the NAW study, "More than 70% of the panelists agree that overall there will be an increase in the commodity lines, product lines and line items carried by the distributor. Yet, they expect the number of suppliers/vendors to decrease through 1995."

Most significantly, *ID*'s 1988 *Survey of Distributor Operations* confirmed this trend (*ID*: July '88). When asked to assess industrial distribution's profitability in the past 5 years, 46% of general liners thought the business had become more profitable, while 38% of specialists agreed (see chart). Conversely, 42% of specialists indicated that distribution had become generally less profitable, compared to 32% of generalists.

When distributors were asked to look ahead 5 years, interestingly, 58% of all survey participants expected profits to be more difficult to achieve, however, 64% of general liners and 55% of specialists anticipated trouble ahead.

Spurring this trend may be the rapid move by American OEMs into just-in-time inventory techniques, and the desire to reduce purchasing costs by severely limiting vendor networks. As a result, many of the nation's largest inventory-intensive manufacturing companies, routinely accustomed to dealing with multiple distributors, abruptly insisted upon obtaining most of their supplies from a select few.

And just as suddenly, the specialist distributor found himself playing on an uneven field with somewhat less purchasing power due to an emphasis on smaller inventories but greater value-added expertise. In other words, while specialists were pitching their technical expertise, many OEMs heard the benefits of supermarket shopping.

NEW RULES OF THE GAME

In 1985, as if to emphasize this "New Order," Du Pont chemical company announced that under its "integrated supply" concept, MRO material for 35 plants would be provided by just 3 distributors.

Today, the concept of integrated supply is widely accepted by the manufacturing community as both cost-effective and desirable. General Electric's Power Systems Div., for example, has selected a single-source vendor in the Northeast for such materials as abrasives, carbides, hand tools, and cleaning supplies.

The Ford Motor Co. is in the process of reducing its network of more than 3,000 distributors from which it buys more than $1 billion in MRO supplies each year. And Ford's purchasing officials cautiously predict that the day will come when they will contract with a single distributor to provide an entire plant with all of its MRO equipment.

UNDER A "RIGOROUS" THUMB

However, Robert O. Dietz, president of the Assn. of High Technology Distributors and of the distributorship Miller & Dietz (Frazer, PA), feels that the reduction in the number of distributors is being used by some manufacturers as a thinly disguised effort to obtain reduced prices.

"I've been on both sides. And when you find yourself in that pleased-to-have-been-chosen role, you also find yourself under a fairly rigorous thumb," he notes wryly.

Dietz stresses that there is often a wide gap between the theory and the practice of integrated purchasing. "They say they're going to evaluate you on the basis of your professionalism and your ability to stay in business. They tell you they are going to conduct a financial review and analyze your products. And they tell you that they're going to look at your service and that all those things are going to be viewed in context along with price. And they say 'certainly we're not only going to be concerned with price.' So it sounds good."

The moment of truth arrives, notes Dietz, only after you have been selected by a customer. "The experience we've had is that when all of that is said and done, they can't resist telling you that being selected is quite a privilege and, therefore, you're going to get a lot of business, so they want your absolute bottom price because you're going to get all this volume."

Customers whose sole emphasis is on pricing may be losing the vital service aspects of their distributors, says Dietz. Under those circumstances, he says, "I don't know how you get value-added service that has any real service in it. That's why I think that the open system is still better. Because if there is value-added and if, in fact, we're different, that will stand out in a competitive situation."

Stuart Clark, executive director of the 1,500-member Nat'l Welding Supply Assn., says that although reducing the number of distributors a company deals with may be its goal, there are limits to how completely this can be accomplished.

All specialists do not see integrated purchasing as an unmitigated evil.

"As much as the Du Ponts and the large firms might want to pare down the number of distributors they utilize," says Clark, "it just logistically can't be done, at least not in the welding supply business." Most welding supply distributors work on extremely low profit margins, explains Clark, and it would be uneconomical for a distributor to deliver welding supplies over great distances.

"The welding supply industry is made up of a lot of mom-and-pop organizations that are already running at fairly low profit levels in comparison to many other businesses," Clark says. But he adds that in response to their current lack of bargaining power, there is a growing trend toward mergers and acquisitions in the industry.

"[Manufacturers] are using that leverage to go out and get purchasing contracts so that they can compete with larger distributors," says Clark. "But because the business has

historically been fragmented, it frightens some distributors when [integrated purchasing] starts to grow."

But all specialists do not see integrated purchasing as an unmitigated evil. Jack Morrison, a former officer of the Material Handling Equipment Distributors Assn. and vice president of Morrison Industrial Equipment Co. (Grand Rapids, MI), can testify that the trend also presents unparalleled opportunities.

Morrison Industrial Equipment was approached by GM to become part of its "single-source" program. The distributor was ultimately selected to replace 28 others who had been providing parts and supplies to the automotive giant.

'There is often a wide gap between theory and the practice of integrated purchasing.'—Dietz

Morrison predicts that the trend toward reducing the number of suppliers among distribution's customers will continue and accelerate. "I think it will be more prevalent as we get into the 1990s," he says. "And the number of suppliers is going to be reduced not by 10% or 20%," he predicts, "but by 50% or more."

Morrison says that, in his company's case, he is optimistic concerning the future. "We've been preparing for this and we see it as the trend of the future. Manufacturers are finding out that they may know how to make automobiles or baby food but they're not experts in controlling inventory. And in the 1990s, I think they are going to rely more heavily on other people to handle all kinds of service functions for them."

CONCERNED ABOUT THE FUTURE

Gary Dulmes, first vice president of the Power Transmission Distributors Assn. (PTDA) and executive vice president of Mainline Industrial Distributors (Appleton, WI), says that although radical amputation of distributors by customers is not yet the norm, it is spreading.

"The trend that is typical is a general reduction of vendors of the kind that Du Pont made. We are very concerned about what the future of that trend holds for us," the young executive says.

He adds that many of PTDA's members are small and medium-sized independent distributors who rely heavily upon their expertise and familiarity with their customers' plants. "That could be lost in the bigger picture by some of the corporate purchasing managers who are spearheading these things. Many of our members are very concerned about whether it might impact them or not," Dulmes notes.

He says that in some of the blanket contracts, "power transmission has just been swept into the pot, although I'm somewhat skeptical about the workability of this thing in the PT area because," he says, "there is a high degree of application expertise expected."

As a result, says Dulmes, he is cautiously optimistic that such specialties as PT will remain largely immune from the cost-cutters. "There is, however, a certain percentage of our products that has been commoditized. It depends on how the buyer wants to view that," he adds.

But some specialists are created more special than others. Ralph Nappi, director of education and communications for the American Machine Tool Distributors Assn., says that his type of distributor is largely exempt. Because machine tools are frequently modified to customer specifications, Nappi says it is unlikely that they could ever be handled by a general line distributor.

In addition, says Nappi, demand for machine tools has been extremely strong for most of the last 18 months. Delivery times for some machine tools are as much as six or seven months. As a result, suppliers can't be too choosy when it's in their own best interest to get a product as soon as possible.

"Right now, the move by customers to consolidate their suppliers is not something we're seeing as a regular trend. It's not a brand new idea either," he concludes.

But whether their product-specific knowledge and technical expertise will protect specialists from the sharp pencils of the corporate cost-cutters remains to be seen. What is certain, however, is that just-in-time and integrated purchasing are altering the distribution landscape for better or worse. Only time will determine whether integrated purchasing is a bane or boon for distributors who specialize. □

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Open Receivables Shut Down Profits

Industrial distributors can increase their cash flow and thus their profitability simply by improving collection tactics.

By Les Kirschbaum

Cash is going to be the password to business successs in the coming years. Companies that accumulate cash and provide for adequate liquidity are going to have the best chance of survival. Companies that ignore the reality of cash and fail to create sufficient reserves are in for difficult times, especially if the cost of borrowing money continues to move upward.

Vital to any distributor's long-term financial strategy, cash will play a significant role and, in turn, will highlight the importance of accounts receivable management—in addition to overall cash management—as a matter for renewed company attention. Through the management of accounts receivable, a company's credit manager will become an indispensible player in this game.

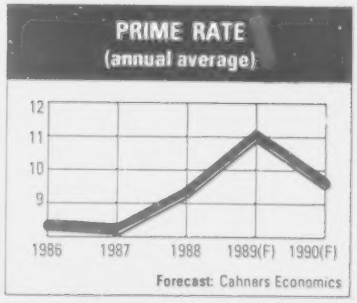
To be successful, a credit management department must establish clear-cut working policies, both internal and external, that will promote the best turnover of cash possible. The credit manager's staff must gain an understanding of the firm's overall strategic plan, then implement procedures within the depart ment that give the company the best chance of meeting its overall business objectives.

REELING IN RECEIVABLES

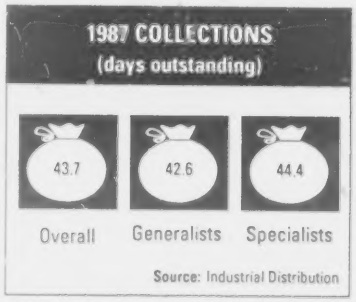
To respond to these conditions, industrial distributors of every type must create the conditions of effective cash flow. The first such step should be to clearly define your business's terms. The best time to do this is with a customer's first order. Consider calling new customers 10 to 15 days prior to the due date of the first invoice. Thank them for their business, ask if there were any problems with the orders, and whether the invoices have been received.

At that point, be sure to remind the customer when the payment is due, and clearly define your credit terms. Remember, once bad habits start, they are difficult to break.

Next, concentrate in-house collection efforts between 31 to 60 days. According to *ID's 1988 Survey of*



As the cost of borrowing rises, the need for reining in receivables will become increasingly important.



Between 1983 and 1987 receivables have averaged 42.3 days for generalists and 43.1 days for specialists.

Distributor Operations, the typical distributor has receivables outstanding for 43.7 days (see chart). This is the critical time where cash flow maintains momentum or breaks down. Most people in this category do not create collection problems, but are merely slow payers. Focusing your collection efforts in this time frame, through either letters or by telephone, should accelerate the payment process and enhance cash flow.

If your company's terms are net 30, make the first call on day 31 and arrange a definite payment schedule. Be persistent and provide close follow-up. There is no need to be heavy handed to the point of losing business, but you should be firm in clarifying that your goal is to be promptly paid when accounts are due.

At 60 to 90 days, make firm decisions. Is the organization still a customer or does it have a collection problem? If it is decided to retain a late-paying company as a customer, you might set up a COD + plan (cash on delivery, plus part of the delinquent balance with each order). Or try a CIA + plan (cash in advance plus the same terms). Either way, create an ongoing business relationship that you are willing to live with, but insist upon adherence to your company's collection policies.

A TIME FOR ACTION

When receivables are open more than 90 days, seek commercial collection involvement. This is the time for outside collection intervention by a third party. By using this collection source as an extension of your credit department (or the individual who normally handles late receivables), your entire staff is free to bring in the cash during the 3-to-60-day optimum timeframe.

But long before a collection agency is needed, industrial distributors can spot potential collection problems in advance, if they take note of several warning signals. Some signs to watch for include: pledging of accounts receivable to a bank, collection claims, suits, judgments obtained by other suppliers, refusing to share financial information, and abrupt and frequent change of banks.

Before credit is extended, a company can analyze a potential customer's credit information to determine whether the firm is a good credit risk. When the information on a prospective buyer is gathered and successfully evaluated, the appropriate credit decision will contribute to your company's sales, cash flow and bottom-line profit.

Credit decisions are usually based

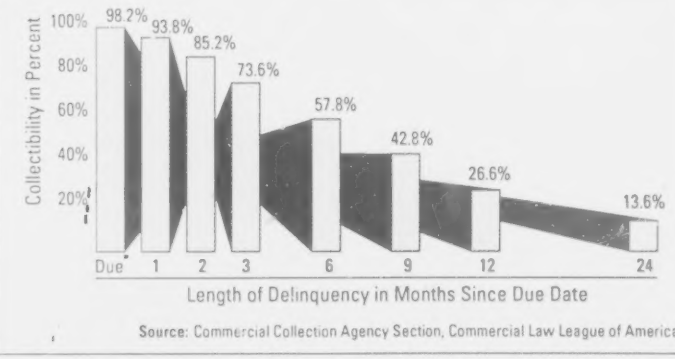
How to find a reputable collection agency

As with any other sound management decision, the choice of a collection agency should be made carefully. Because that company represents your business in a sensitive area, choosing an agency requires a thorough investigation.

When researching a collection agency, the first thing you will want to know is how long it has been in business. Next, you will want a list of references in your geographic area, preferably from those agencies with experience in industrial distribution. Also, many states require collection agencies to be bonded and/or licensed. Find out what your state requires by checking with either the state's department of regulations or the attorney general's office.

In order to obtain a listing of agencies in your area, contact the Commercial Collection Agency Section of the Commercial Law League of America in Bethesda, MD. Their telephone number is (301) 365-2224.

By following up on references, you can evaluate a collection agency and, in the end, help close delinquent accounts.



The chart above demonstrates that the collectibility of delinquent commercial debts decreases dramatically with the length of delinquency.

Stepped-up collections are worth the trouble

Without a persistent and consistent collection program, businesses waiting to receive delinquent payments after 6 months stand about a 50% chance of seeing the money.

Statistics compiled by the Commercial Collection Agency Section of the Commercial Law League of America show that the collectibility of delinquent commercial debts decreases dramatically with the length of delinquency. For example, the chance of collecting a payment that is 2 months late is 85.2% (see chart). After a year has passed, collectibility falls to 26.6%, and after 2 years, a very unpromising 13.6%.

The best way to combat this problem is to push for collections immediately, even before payment is due. For starters, make sure your customers know your terms of sale and state them clearly and precisely.

If a payment does not arrive on time, make that first collection call immediately. Don't wait 45, 60 or 75 days. As the chart indicates, once you allow a customer to lose interest in paying a past-due account, the chances of ever collecting diminish rapidly.

Receivables

on information obtained primarily from trade or supplier references, credit reporting agencies, salespeople, personal visits, bank references, and financial statements. The most important point to consider about any of these sources is their timeliness. Most are not current when they reach your desk. Financial statements may be desired when large-volume customers are being considered, particularly when they require a commitment to increased inventory.

When receivables are open more than 90 days, seek commercial collection involvement.

Reporting agencies may promise "current" data, but larger agencies' reports are often 90 days old. And if a marginal account or an account in a volatile industry is being considered, a 3-month-old credit statement could be disastrous.

That's why trade references, along with bank references, are undoubtedly the best sources of current, accurate credit information. Reports through trade groups and banks can be requested by mail or telephone. The latter may be preferable for several reasons: First, utilizing the phone will help you obtain the information fastest and; second, one can generally speak with the credit executive or another person in authority so that the most current and correct information can be exchanged.

On the other hand, telephone requests for "classified information" sometimes require written requests to assure that information is passed only to authorized users.

Whichever method is chosen, improving collection procedures to increase a company's cash flow can only benefit industrial distributors. By instituting policies and practices such as those described, you can reduce your company's problems with open accounts receivables. □

EDITOR'S NOTE: Les Kirschbaum is president of Mid-Continent Agencies, Inc., a commercial collection agency based in Glenview, IL.

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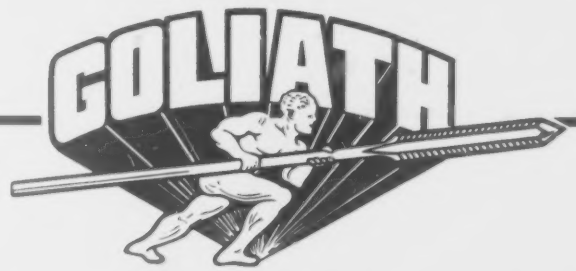

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Circle No. 89

Optimize your training dollar

By Dr. Demo A. Stavros

Research we have conducted at Eastern Michigan University in Ypsilanti, MI, reveals that the knowledge employees gain during training sessions can be easily forgotten if it is not immediately used or reinforced.

For example, the day following a training session, employees generally lose 66% of what they learned unless management sees to it that the information covered during the session is used or reinforced on the job (see chart).

For training sessions to truly succeed, you have to constantly ask yourself what you hope to gain from training your employees. Some common goals include helping customers help themselves solve problems, increasing the productivity of your work force, increasing the efficiency of your internal systems, improving employee morale, and increasing the company's profits through better customer service.

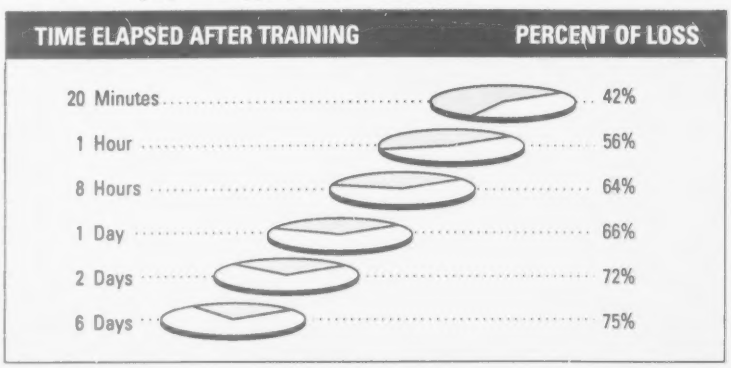
To get the best possible results from training, once you've decided to send an employee to a training session, start preparing that person for the course. Sometime before the employee attends the training session, review the course's subject matter and the reason why the employee is attending the course. Lay out carefully your expectations, the amount of time the training should take and any travel arrangements the employee must make.

One or two days before the training is scheduled, review the course in detail and ask the employee what he or she expects from the course. So that he or she can obtain the most benefit from the training session, remove all work responsibilities to allow full concentration on the course. If the employee is a manager or supervisor, formally appoint someone to temporarily take over this individual's supervisory tasks. During the course, contact the employee at least once, but never interrupt a class. In addition, set up an appointment for review upon the employee's return and arrange for regular follow-up.

Once the employee returns from the training session, conduct a formal interview. Find out what was good and bad about the course. Agree on implementation of new knowledge. Put into motion agreed upon changes, and be sure to enforce them periodically. In addition, organize a presentation for the employee to share his or her insights with fellow employees if appropriate, place a record of the employee having attended the session in his or her permanent file and make recommendations as to whether others should or shouldn't attend the course.

While numerous companies have proven time and again that a trained employee simply has the knowledge to do a more effective job, it is clear that the businesses that have derived the most benefit from training programs are those in which management prepares employees thoroughly, and quickly utilizes and reinforces what has been learned. Without direction from management, any training is destined to have a minimal or transitory effect. □

EDITOR'S NOTE: This article is based on lecture materials prepared by Dr. Demo A. Stavros, director of the industrial distribution program at Eastern Michigan University in Ypsilanti, MI.



An employee's retention rate can nosedive if the subject matter is not reinforced, according to research by Eastern Michigan University.

BUSINESS REPORT

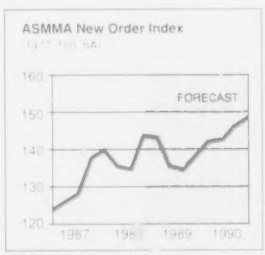
BY KRIS BLEDOWSKI

Economy Slowing

But there will be no recession in 1989

Recent economic indicators make some people uneasy and confused. February's unemployment rate dipped to 5.1%, the lowest figure in several years. And producer prices shot up at an annual rate of over 6% in the first two months of the year. At the same time industrial output was down and capacity utilization decreased, signalling that the pace of growth has slowed. The Fed's hike of interest rates was an admission of fear that the set of positive indicators was too strong to sustain the continuation of the noninflationary growth.

However, there are no visible signs of an inflationary spiral. Wages have been growing slowly for the past year, and at about 3%, the gain was in line with inflation. The producer price index did rise 1.0% in January and again 1.0% in February, but expectations of persistent price increases have not been embedded in general business behavior. If anything, people expect lower demand in the future and lessening pressure on prices. The confidence index of both consumers and business leaders is high.



Data source: ASMMA
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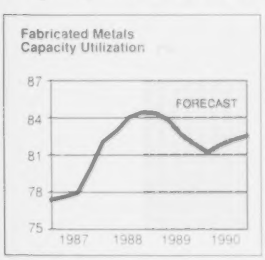
The economy has reached a plateau which is confirmed by government indicators sputtering around without a trend. Manufacturing industrial production was unchanged in February as was total industrial output. Both indices were over 5% higher than a year ago. Output of fabricated metals was virtually unchanged for four months while that of transportation equipment declined for the second month in a row.

Lower output was matched by lower use of capacity—a significant testimony to a cooling economy. Capacity utilization in manufacturing declined for the first time in 13 months, while the fabricated metals sector's capacity use peaked in November 1988. In both categories the index declined 0.2% in February and is expected to keep falling until the end of the year.

Finally, high inventories do not yet signify involuntary accumulation of stocks given persistently high inventory-shipments ratios. Sales have not fallen short of expectations due to a large backlog of unfilled orders. Overall, we will not see a recession this year. However, do expect that the growth rate is going to be checked. □



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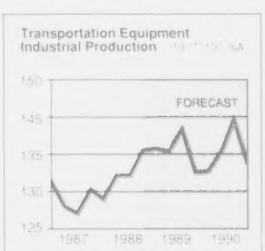

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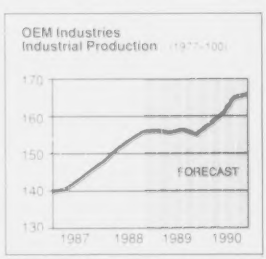

Data source: Federal Reserve Board
Forecast source: Cahners Economics

	SALES			RECEIVABLES	INVENTORY	
(1977=100)	Feb. 1989	Jan. 1989	Feb. '89 vs Feb. '88 % change	Feb. 1989 days	Feb. 1989 % increase	Feb. 1989 % decrease
TOTAL	176.2	177.2	13.7	42	5.8	7.6
EAST	151.7	155.7	9.5	50	2.0	4.1
SOUTH	249.1	251.6	27.8	45	1.0	2.4
CENTRAL	143.3	150.5	8.1	42	8.0	14.0
WEST	220.3	189.4	16.3	35	6.0	1.7

Source: Industrial Distribution Association

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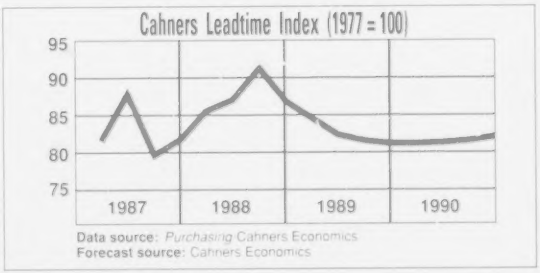
SUPPLY OUTLOOK

BY KRIS BLEDOWSKI

I.D.A. Members' Sales Up

But a slowdown is imminent

Cahners Economics/Research in cooperation with the Industrial Distribution Assn. (I.D.A.) has begun to conduct monthly surveys of members' business activity. The sample includes about 90 original I.D.A. members who have consistently been polled by the organization as well as 150 businesses surveyed by Cahners. Results from both sources are then tabulated by Cahners Research and a summary appears regularly in Industrial Distribution's *Business Report* (see p.xx).

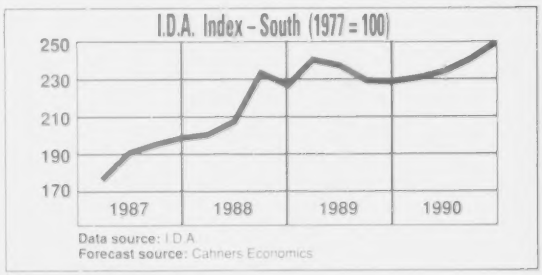


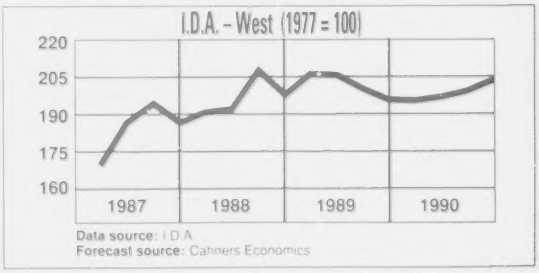
The latest statistics show a consistent pattern of strong growth in all four geographical areas (East, Central, South, and West). Distributors in the southern states reported the highest sales gains (14.0%) last year, followed by the central region (9.8%), West (6.8%), and East (4.5%). In all four cases the cyclical activity mirrored that of industrial production very well.

However, when evaluated in terms of rates of change, the pattern for the East and South was consistently below that of a national output index. One explanation for this could be exports. As the overall economy experienced a boom in foreign sales during the past few years, the national index outperformed that portion of the economy which relied primarily on domestic business. In general, the cyclical variation in sales of each region was well correlated with the index of industrial production for that region.

Our forecast calls for sales to cool off during the year. At 7.8%, the South is again going to grow the fastest, followed by 2.4% in the West, 1.5% in the Central states, and no growth in the East. For now, Cahners expects that growth will continue through the first few months of 1989 and decline sharply towards the end of the year as capital spending and new construction abate, although this view is not universally shared (see Hot Markets, p.xx). Low inventory-shipments ratios in the OEM industries in 1987 and 1989 should lengthen this year. As the economy cools off toward the end of 1989, the I/S ratio should jump to an average of 2.17, up from 2.15 in 1987 and 2.09 in 1988.

But the ebb will be shallow and short-lived and the economy will certainly not experience a recession. By mid-1990, distributors should expect stronger demand from most end markets continuing through 1991. □





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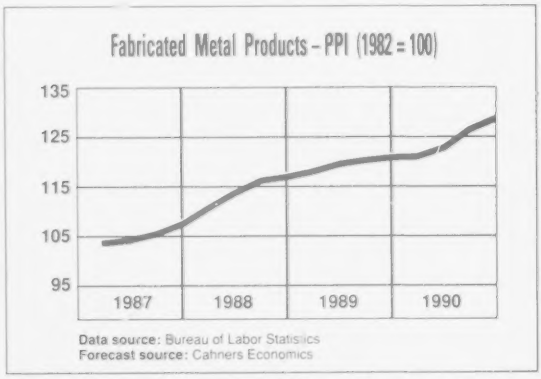
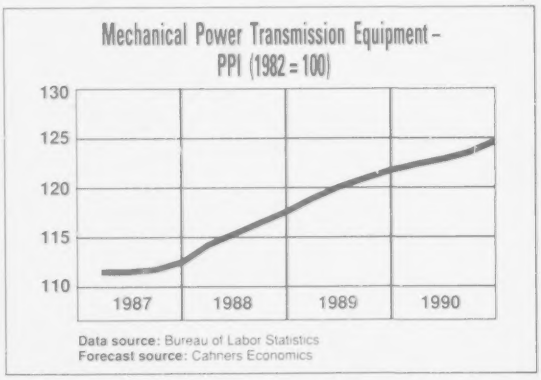
SUPPLY OUTLOOK

Increased capacity utilization pushes prices

Tight supply conditions across a spectrum of industries sent prices of selected product groups sharply higher in the first months of this year. Fabricated metals inflation, for example, was running at an annual rate of only 1.8% in December 1987 but reached 8.7% by January of this year. Similarly, power transmission equipment prices rose at a 3.8% annual rate in January, up from 1.2% in the same period a year before. The underlying trend is for cost-push inflation to finally manifest itself after a long expansionary period during which capacity was underutilized.



Prices for fabricated metals were 8.7% higher in 1988 but inflation should abate in 1989 despite tight capacity.



The rate of inflation for power transmission equipment was almost three times as high in 1988 as it was in 1987.

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